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## **Analyzing inter-state negotiations in the Eurozone crisis and beyond**

Frieden, Jeffry ; Walter, Stefanie

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## Analyzing inter-state negotiations in the Eurozone crisis and beyond

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### **Abstract**

Analyzing international negotiations among the member states of the European Union raises a number of analytical issues, especially in unusual circumstances such as the Eurozone crisis. Our article discusses these issues in the light of existing theory and informed by the empirical analyses assembled in this special issue. 'National preferences' or ideal points of the governments involved are driven by their domestic socio-economic and political conditions and institutions, the dimensionality of the negotiations, and strategic considerations. We then discuss how national preferences, states' bargaining power, the strategic and institutional bargaining context, and the bargaining dynamics jointly influence the bargaining outcome. Examples from the articles in this special issue illustrate both the complexity of the process and the value of serious, theoretically informed, empirical analysis.

### **Keywords**

Bargaining, bargaining power, Eurozone crisis, ideal points, international negotiations

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The nations engaged in building an Economic and Monetary Union in Europe (EMU) have embarked on an extraordinary process without recent parallel. They are not creating a federal union, for the component units remain sovereign nation states. They are not simply building an international organization, for the institutions of the EMU have powers far beyond that of existing international organizations, such as designing a common set of monetary and financial policies. The construction of this unique entity presents policymakers in the EMU's member states with difficult decisions. These decisions have become all the more contentious since the Eurozone crisis exposed EMU's structural problems. Because reform requires compromise, the negotiations over EMU reform have proven difficult and protracted. At the same time, EMU and attempts to reform it pose fascinating questions for scholars trying to understand the process.

The essays in this special issue are set out to answer some of these questions in an effort to provide a better understanding of the politics of EMU. They focus on the negotiations over Eurozone crisis resolution and EMU reform. Taken together, the six essays present a full picture of these negotiations, from an analysis of national bargaining positions, through negotiation dynamics, to countries' bargaining success. All contributions employ the new and versatile 'EMU Positions' dataset, which contains a comprehensive collection of member states' and European Union (EU) institutions' preferences, issue salience, and bargaining outcomes on 47 EMU proposals that were officially negotiated during the Eurozone crisis. The articles help us better understand

the negotiations over how to reform EMU and provide broader insights into the politics of European and international negotiations.

In this concluding essay to the special issue, we suggest how the articles in this volume help us make sense of how EMU has evolved during the crisis, and how they help us analyze the complex politics of the EU more generally. We discuss the questions that a thorough analysis of intergovernmental negotiations needs to address, the answers that the contributions in this special issue give, and they fit in the wider literature on international bargaining in European politics and international relations. We start our discussion with the analysis of ‘national preferences,’ as represented by the estimation of national ideal points. We then discuss the bargaining process, focusing on sources of bargaining power, and bargaining dynamics. Our aim is to show how the contributions to this special issue add to our understanding on each of these issues, as well as the ways in which they can serve as starting points for future research.

### **National preferences: Ideal-point estimation**

The starting point for analyzing inter-state interactions is determining the goals of national governments for these interactions – simply captured as ‘national preferences’ (Moravcsik, 1997). Of course, this is shorthand, for individuals, not nations, have preferences. Nonetheless, for the purposes of analyzing inter-state bargaining, it is reasonable – indeed, essential – to approximate the goals of each negotiating national

government. These goals shape government bargaining positions at the negotiation table and influence whether and which bargain will be struck (Moravcsik, 1997; Putnam, 1988).

Identifying national preferences – governments' 'ideal points' – is no easy matter, however. It involves making assumptions about three sets of questions: First, how do domestic socio-economic and political factors affect national governments' ideal points? Second, can these preferences be ordered spatially, and if so, along which dimension(s)? And finally, how do governments attempt to achieve their goals, given these preferences contingent and the wider strategic setting in which negotiations occur? Depending on the assumptions the analyst makes in answering each of these questions, the measured ideal points and strategies of national governments will vary. Estimating ideal points is thus ultimately an eminently theoretical enterprise, but also one that can be evaluated empirically – as the articles by Tarlea et al. (2019) and Wasserfallen and Lehner (2019) in this special issue do.

#### *Domestic sources of national bargaining positions*

What are the domestic sources of national governments' ideal points? National preferences can be rooted in societal, ideological, and institutional considerations. Governments are responsible to their constituents, but there is a wide variety of potentially relevant constituents. They include voters, special interest groups, and bureaucrats themselves. Moreover, constituent preferences are mediated through

national social and political institutions. Estimating ideal points of national governments requires making decisions about how important one thinks interest groups, electoral pressures, partisan politics, ideology, and other factors are in affecting the goals of a government. There are different ways to go about this enterprise. Analysts who see special interests as core drivers of government preferences suggest that national ideal points vary depending on the extent to which domestic interest groups will be affected by the policy under consideration (e.g. Bailer et al., 2015; Frieden, 2002). Other scholars emphasize the role of public opinion as a crucial determinant of governments' positions in international negotiations (e.g. Hagemann et al., 2017). With regard to ideology, party politics is often seen as key (e.g. Hagemann and Hoyland, 2008; Mattila, 2009). The analyst might begin by estimating the policy positions of different political parties regarding the issue at hand and assume that a government made up of several political parties has the policy preferences consistent with the weighted average of its constituent parties' preferences.

Finally, countries' institutions matter in shaping expressed national preferences, because institutions determine how different societal interests influence national policy. For example, a large body of research shows that countries with democratic institutions are more likely to support trade liberalization in its various forms than autocracies (e.g. Copelovitch and Ohls, 2012; Milner and Kubota, 2005). But even within a body like the EU, which consists only of democracies, institutions vary. National parliaments, for

example, constrain governments' room to maneuver in EU-level negotiations (Winzen, 2012). And while it makes sense to treat these different sources of domestic preferences separately for analytical reasons, more often than not they will interact with each other to jointly influence national negotiation positions (Finke, 2009).

How important were each of these different explanatory factors in the European negotiations about EMU reform? Tarlea et al.'s (2019) contribution in this special issue evaluates this question. In line with political economy analyses of the Eurozone crisis (Frieden and Walter, 2017), it finds that countries' ideal points about EMU reform have been strongly shaped by special interests, especially by those of the financial services industry. Countries with more exposed financial sectors were particularly favorable to more Europeanized solutions, as were countries with higher unemployment levels. Interestingly, although public opinion has been mobilized considerably by the Eurozone crisis (Hobolt, 2015), it did not shape governments' negotiation positions. In contrast, domestic institutions mattered: countries with strong national parliaments were significantly more supportive of EMU reforms that kept core competences at the national level. The article demonstrates that national negotiating positions are likely to be shaped by those domestic actors most strongly and directly affected by the reforms in question. These groups are likely to vary by issue area: in EU negotiations about the refugee crisis, different societal actors are likely to matter than in negotiations over financial regulation, for example.

The findings demonstrate that domestic politics and domestic distributive concerns have a strong influence on national governments' room to maneuver. Spelling out the conditions under which certain interests are more successful in shaping national negotiating positions therefore appears to be a fruitful avenue for future research. This may also require disaggregated analyses that also consider the ideal points of different parties, interest groups, and domestic institutions with regard to the issues at hand.

### *Dimensionality*

The second aspect of analyzing national negotiation positions is the question of dimensionality. Are national preferences about the issue at hand aligned along one dimension, or are several dimensions concerned? What are these dimensions? Answering these questions is important, because a one-dimensional bargaining game looks different from a two- or multi-dimensional bargaining game. The number and nature of negotiating dimensions shape the negotiation dynamics and possibilities for compromise, yet existing research does not provide clear guidance on this issue (Lehner and Wasserfallen, 2019).<sup>i</sup>

One of the fundamental issues in international negotiations is the question of how much to cooperate, a dimension that reflects the trade-off between national sovereignty and the benefits from international cooperation. The easiest way to think about this is that a group, a party, and ultimately the national government compares the expected



consequences of keeping decision-making power at the national level to the expected consequences of transferring the policy to international level. Trade policy can provide an example, in this instance of a policy long since Europeanized. A group in, say, Italy may expect Italian trade policy to be more favorable to its interests than European policy. However, Europe has greater bargaining power internationally than does Italy, and so may be able to conclude trade deals that overall benefit Italy more than if it were to negotiate by itself. Hence, in defining Italy's negotiating position, the group's views on the Europeanization of trade policy depends on the tradeoff between a more favorable policy, on the one hand, and greater international bargaining power, on the other (Frieden, 2004).

The smaller the expected benefits of an international solution relative to a more nationalized one, the less attractive international cooperation will be. In Europe, this dimension reflects the choices between delegating greater or less power over a particular policy to the EU. If this is the only dimension, preferences over outcomes lead to preferences over the extent to which policy should be kept at the national level or be Europeanized. Much research on European politics shows that this is indeed a core dimension of conflict in European politics. However, some studies suggest that European negotiations are characterized not by a unidimensional 'more-vs.-less integration' bargaining space, but rather that national positions can usually be placed in a two-dimensional bargaining space where the more-vs.-less integration conflict dimension is

complemented by the more traditional left-right dimension (Hix, 1999; Marks and Steenbergen, 2004). This matters, because the more dimensions come into play, the more likely it becomes that similar interest groups or political parties in two countries might have different views on Europeanization. Left governments that favor more redistribution may, for example, support Europeanization when they expect their country to benefit on net from a redistributive Europeanized policy but may oppose delegation to the European level when they expect their country to be a net contributor. The literature not only debates the number of dimensions, but also the nature of these dimensions. Especially in the context of the Eurozone crisis, some authors have argued for a more issue-specific approach that focuses explicitly on fiscal discipline and the distributive questions involved in Eurozone reform (Armingeon and Cranmer, 2017; Frieden and Walter, 2017).

The contributions in this special issue, although they are based on the same data, vary in how they conceptualize the nature and number of dimensions in European negotiations over EMU reform. Tarlea et al.'s (2019) article conceptualizes government positions on a single dimension and classifies them as to whether they prefer more or less integration. Lehner and Wasserfallen (2019, see also the contribution by Degner and Leuffen (2019)) examine this issue in great detail and also identify one single systematic dimension of conflict. However, rather than more vs. less integration, they suggest that in the EMU negotiations, government positions depended upon their support for fiscal

transfers vs. fiscal discipline. In contrast, Bailer and Finke's (2019) contribution conceptualizes the reform space along three dimensions: the level of transfers, the level of fiscal discipline (austerity), and the level of institutionalization. They argue that considering the interplay of these dimensions is of crucial relevance for understanding the bargaining dynamics in reforming the EMU. This divergence shows that different theoretical and empirical approaches can yield different conclusions about the dimensionality of the bargaining space.

#### *Strategic considerations*

Finally, national governments are likely to take the wider strategic setting into account when formulating their negotiating positions. This complicates the estimation of ideal points and the analysis of bargaining dynamics in two ways: First, countries' revealed preferences in international negotiations may not reflect their true preferences. And second, strategic considerations may eliminate certain policy options from the discussion before they even make it to the bargaining table.<sup>ii</sup>

With regard to revealed vs. true preferences, the approach pursued by the contributions in this special issue has been to treat the governments' revealed goals regarding specific policies as approximations of their actual national ideal points. This is a standard approach in European politics research (e.g. Finke et al., 2012; Thomson et al., 2006) and one that, in the absence of viable alternatives, is both pragmatic and productive,

especially in light of evidence that revealed preferences in European negotiations often coincide with sincere preferences (Bailer, 2011). It is also an approach that yields meaningful results, as the contributions in this special issue show.

However, revealed preferences do not always mirror countries' true preferences. Less powerful states may preemptively fall in line with more powerful states. Other states may free ride on more powerful states' negotiating positions, because it allows them to achieve their preferred outcomes without having to openly fight for them. In the Eurozone crisis, for example, Germany is often seen as holding the most extreme position. But at various points in the Eurozone crisis, it became clear that a group of countries (sometimes referred to as 'the Hanseatic League') had at least as extreme, or even more extreme positions than Germany. States may also hide their true positions for strategic reasons (König et al., 2005). Moreover, linkages exist across different issues and international fora. Ample evidence exists, for example, that recipients of World Bank and International Monetary Fund (IMF) loans are more likely to vote in line with the G7, and especially the United States, in the United Nations General Assembly (e.g. Dreher et al., 2009). In the EU, with its many issue areas and multiple fora, such behavior also occurs frequently (König and Junge, 2009) .

The second strategic complication is that powerful states can rule out certain policy options so that they never enter the agenda of official negotiations (Bachrach and Baratz, 1963). In the introductory piece to this special issue, Wasserfallen et al. (2019)

emphasize this phenomenon by distinguishing between potential and negotiated policy proposals. Indeed, one of the aspects of the Eurozone crisis that has most puzzled political economists is the unusual approach that the Eurozone has pursued (Copelovitch et al., 2016; Frieden, 2015; Frieden and Walter, 2017; Mody, 2018). Rather than sharing crisis resolution costs, for example by accepting debt restructuring or adjusting domestic economic policies, the creditor and surplus countries of the Eurozone have been successful in offloading most of the costs of the crisis onto the Eurozone's debtor and deficit states. Proposals such as thoroughgoing debt restructuring or far-reaching reforms to the EMU's architecture never made it to the bargaining table. Given the nature of the data, most of the contributions in this special issue neglect this issue and focus on the negotiated policy options.

To the extent that these analyses cover the negotiations over the actual policy proposals under discussion, they yield interesting and important insights. Yet some of the puzzling findings, such as Lundgren et al.'s (2019) conclusion that Germany did not dictate the terms of Eurozone reforms, appear less puzzling when one considers that Germany may have influenced how the set of potential options was narrowed – as the authors discuss at length in their article. Degner and Leuffen's (2019) contribution takes on this issue directly. Their analysis of France's and Germany's roles in EMU reform argues that as core players, both countries pre-selected issues from the set of potential policy options, so that the other member states were forced to position themselves only

with regard to the remaining, negotiated, options (see also Tsebelis and Hahm, 2014). Does this discussion imply that using revealed negotiating positions is a futile enterprise? No, but the limitations of the approach have to be taken into account when interpreting the results.

### **The bargaining game: Bargaining power and dynamics**

Keeping the complexity of the estimation of national ideal points in mind, we now move to how national negotiating positions might be used to illuminate the bargaining game. When nation states bargain, they – like all bargainers – try to obtain an outcome as close as possible to their ideal point. But not all states will be equally successful in achieving that aim. This raises the questions: How do national preferences, states' bargaining power, the bargaining context, and the bargaining dynamics jointly influence the bargaining outcome?

Within the bargaining game, actors typically have different levels of bargaining power, defined as the ability to draw the outcome closer to one's ideal point. Bargaining power is jointly determined by characteristics of the state itself, especially how much it wants to avoid negotiation failure, by the preference constellation of all actors at the bargaining table, and by the institutional setup of the bargaining game – such as the relevant decision rule, agenda control, and the wider institutional context. Although these issues are of course related, we discuss each of them in turn.

### *The reversion point*

At its core, bargaining power is a function of a government's reversion point, that is, its valuation of what would happen in the absence of an agreement.<sup>iii</sup> Because sovereign states will only settle for a bargained outcome if it is more desirable than the outcome that would prevail if the negotiations reached no conclusion, the reversion point determines how much governments are willing to compromise to avoid the reversion point.

The less a governments wants or needs the agreement under negotiation, the more bargaining power it has (Keohane and Nye, 1977). The better off a government is in the absence of an agreement relative to a bargained outcome and the less it cares about the bargain, the more easily it can walk away from the negotiations, and this gives it bargaining power. By the same token, governments that would be left much worse off without a conclusion to the negotiations are in a weaker bargaining position, all else equal. A related factor is the time horizon of the government: the more quickly it needs action, the weaker its position (Rubinstein, 1982). The member state that can wait longer is likely to be in a superior negotiating position, especially if its counterpart member states face dire circumstances in the relatively short run. It is therefore not surprising that the contribution by Lundgren et al. (2019) finds that non-Eurozone members had more bargaining power than Eurozone member states and that states' deep commitment to the

euro partly neutralized their influence. Nonetheless, it is surprising that their analyses suggest that issue importance and issue salience had no statistically significant effects on bargaining power.

In many international negotiations, the reversion point is the *status quo*, the condition prevailing at the start of the interaction. This is particularly true when states bargain about establishing new or deeper forms of cooperation or integration. In these cases, a failure to reach a consensus means that the status quo of no or existing levels of cooperation will continue. In this kind of negotiation, the states that have most to gain from more international cooperation will, all else equal, have less bargaining power because they are more eager to conclude a deal, especially if the issue under negotiation is equally salient for all negotiating parties. Much of the literature on EU negotiations has examined bargaining power and bargaining dynamics in such contexts (e.g. Arregui and Thomson, 2009; Bailer, 2004, 2010; Golub, 2012; Schneider et al., 2010; Slapin, 2006; Thomson et al., 2006). One crucial and common assumption for analyzing these negotiations is that states will vote against any reform proposal that is further away from their ideal position than the status quo (see for example Finke and Bailer, 2019).

Negotiations in the shadow of the Eurozone crisis, however, differed from this conventional setup in one crucial respect: More often than not, the reversion point in these negotiations was not a continuation of the status quo – an imperfect, yet stable European Monetary and Economic Union – but a breakup of the Eurozone, or even



financial chaos. Although negotiations continue to revolve around establishing new cooperative schemes in such negotiations (in the Eurozone crisis, for example, issuing Eurobonds, creating a bailout fund, or designing a banking union), the reversion point is not the status quo, but an outcome that is extremely costly for some or even all member states. Rather than negotiating about how to distribute the gains from international cooperation, these negotiations are thus about how to distribute the *costs* of cooperation. This not only raises the stakes for all involved actors, but also weakens the bargaining power of those countries most at risk from the reversion point, especially as the costs associated with reversion point are often likely to vary considerably among member states. The Brexit negotiations are a case in point.

Understanding that negotiations occurred under the specter of a very costly reversion point helps explain the bargaining dynamic in much of the Eurozone debt crisis. As in most debt crises, debtor governments that had run out of funds and found themselves frozen out of international capital markets were under much more immediate pressure than governments of creditor countries. This asymmetry of the bargaining relationship helps explain both why creditors typically do better than debtors in debt negotiations more generally, and why this was also the case in the case of the Eurozone debt crisis more specifically (Frieden, 2015; Moschella, 2017). In line with this argument, Finke and Bailer's contribution to this special issue finds that governments facing less financial market pressure during the crisis had more bargaining power than those

governments deeply embroiled in the crisis, and hence deeply in need of concluding the negotiations (see also Schimmelfennig, 2015). Understanding the role of the reversion point also explains why Germany and France, two countries not experiencing immediate market pressure, were able to become prominent actors in Eurozone reform (Degner and Leuffen (2019), see also Schild, 2013).

Thinking about the reversion point is also relevant for analyzing the role that domestic constraints have on the bargaining power of international states. Much research in the tradition of two-level games has shown that more constrained states may enjoy an advantage in inter-state bargaining because their room for compromise is smaller than for states that face less domestic constraints (Putnam, 1988). For example, countries with more skeptical domestic ratification pivots are more hesitant to vote against further Europeanization (Hagemann et al., 2017) and therefore tend to be more successful in international negotiations (Slapin, 2006). There is also ample evidence that domestic politics influenced how the Eurozone crisis was managed (e.g. Bernhard and Leblang, 2016; Schneider and Slantchev, 2018). However, the extent to which domestic institutional and political constraints, such as a Euroskeptic public, matter for a country's bargaining power depends on how domestic veto players assess the reversion point relative to a bargaining solution.

Domestic constraints are particularly powerful when influential domestic actors prefer the reversion point to certain negotiated outcomes. The Euroskeptic 'Alternative

for Germany' open campaign in favor of a German exit from the Eurozone is such an example, and is likely to have provided Germany with some added bargaining leverage on the European level. In contrast, domestic constraints have less bite when domestic veto players ultimately shy away from the reversion point. The 2015 Greek bailout referendum illustrates this point: Although national referendums are usually seen as a means to increase states' bargaining power in international negotiations (Hug and König, 2002), the Greek referendum against the EU's proposed bailout extension package gave the Greek government no additional bargaining power. At first glance, this seems puzzling in light of the overwhelming rejection of the bailout package by 61% of Greek voters. However, this outcome can be understood as indicating that while opposed to the bailout package, Greeks – including those who voted 'no' in the bailout referendum – were even more opposed to a Greek exit from the Eurozone (Walter et al., 2018). When push came to shove and the Greek government was confronted with either accepting another tough bailout package or the reversion point, leaving the Eurozone, the Greek government acquiesced and accepted the negotiation outcome. In effect, the referendum weakened the Greek bargaining position further, because it revealed that the government was bluffing. Future research would thus benefit from including the reversion point more explicitly into the analysis of domestic constraints on international negotiation outcomes.

Given the importance of the reversion point, we see two additional fruitful avenues for future research. First, bargaining power based on the reversion point should

matter even before formal negotiations begin. As discussed above, powerful states may use this power to remove certain outcomes from the menu of options even before the negotiations start. Future research could improve our understanding of the role of the reversion point and bargaining power more generally by explicitly incorporating the issue-selection phase into analyses of bargaining power and bargaining outcomes. This may require more qualitative approaches, such as the analysis in this special issue by Degner and Leuffen (2019), because it is more difficult to quantify instances where issues never officially entered the negotiations. A second avenue for future research is to better conceptualize and measure the exposure of states to the reversion point. This is less straightforward than conceptualizing exposure to the status quo and subject to more uncertainty because of the need to construct a counterfactual. Given the centrality of the reversion point especially during crisis bargaining, however, more research on how to tackle this issue seems promising.

#### *Preference constellations and decision rules*

A second source of bargaining power is the preference constellation among the bargaining actors. As is the case for most politics, a central consideration in attempting to explain EU negotiation outcomes is the role of the *pivotal* voter. This is the actor – in this case usually the pivotal nation-state – whose support is necessary to conclude an agreement under a given decision rule and given distribution of preferences (Krehbiel,

1998). When votes are decided by majority rule, the *pivotal* voter corresponds to the *median* voter because the median voter is a necessary and sufficient member of all minimum winning coalitions (Krehbiel, 2006). Thinking about political pivots is of more general institutional relevance, however, because it allows us to generalize from the specific median voter case. Because the pivotal voter's support is necessary to successfully conclude an agreement, the pivot enjoys enhanced bargaining power.

Who the pivotal country is depends on the configuration of the ideal point of all the actors involved in the negotiation and on the decision rule by which decisions are taken in a negotiation. This requires identifying the involved actors, the resulting preference constellation, and the relevant decision rule. In the negotiations studied in this special issue, for example, the set of actors, the preference constellations, and the decision rules varied widely.

Most major decisions about EMU crisis management and reform required unanimous consent of all actors by a varying array of actors: Some decisions were taken by all EU member states through Council decisions (for example the first Greek bailout program). Others (most decisions regarding the Fiscal Compact) involved all member states but used a less institutionalized decision-making process whose outcome was intergovernmental treaties, rather than EU legislation. Finally, some unanimous decisions were taken by a subset of EU members, most notably the members of the Eurogroup (for example, most decisions taken with regard to the European Financial

Stability Facility or the European Stability Mechanism). Under unanimous decision rules, every country can be pivotal. Because any country can veto a proposal that does not make it better off than the reversion point under unanimity rule, the country with the most extreme ideal point is pivotal – even if all other countries would underwrite a compromise. Finding an agreement therefore requires all states to accommodate the pivotal country's extreme position.

Some reform decisions, however, especially about the Six-Pack and many decisions on Banking Union, were decided using the EU's standard ordinary legislature procedure.<sup>iv</sup> This is a procedure in which the Council (i.e. the EU member states) and the European Parliament jointly decide on a proposal first put forth by the European Commission. As a result, all member states and the European Parliament constitute potential pivots. Things become more complicated, however because within the Council, decisions are taken by qualified majority voting (QMV). This means that the identity of the pivotal country depends on precisely what kind of majority is necessary for the decision to be adopted. With QMV, the pivotal country is the one placed on the dimension of interest right at the point that constitutes the qualified majority. Identifying the pivot in QMV is more complex, however, when the votes of the negotiating states are weighted, as they are in the Council of the European Union where larger states have more votes than smaller states. Larger countries are therefore more likely than smaller ones to turn into the pivotal voter. The result is that the outcome of the negotiations tends to lie

closer to the ideal point of those states with more voting power (Arregui and Thomson, 2009; Bailer, 2004).<sup>v</sup>

This discussion underscores that it matters both where the states' ideal points are located relative to all other negotiating parties' ideal points and by which rule decisions are taken. This point is highlighted by two contributions in this special issue, Lundgren et al. (2019) and Finke and Bailer (2019). The interplay between the preference constellation and the type of decision rule – in this case unanimity or QMV – is demonstrated by Lundgren et al., which show that states whose preferences are closely located to the mean ideal point of all negotiating partners were much more likely to achieve their preferred outcome under QMV than under unanimity.

The significant variation in actors, preference constellation, and decision rules covered by the 'EMU Choices' dataset provides ample room for future analyses to explore these issues in future research beyond the contributions in this special issue. For example, the institutional structure of the EU profoundly affects the outcome of bargaining among its member states in a multitude of ways, most of them complex and all of them difficult to analyze. A wealth of theoretical and empirical evidence demonstrates the importance of institutional configurations in affecting the making of national and international policy. Much debate revolves around exactly *how* institutions affect policy, and this is particularly true for the EU which is far more richly institutionalized than inter-state relations more generally, but less institutionally constrained than most democratic nation

states. This makes it both crucial and fascinating to analyze the impact of European institutions and their interplay with actors and preference constellations on negotiation outcomes. By providing detailed information about the participants in each round of negotiations, the data generated by the 'EMU Choices' project can help shed light on these issues. Moreover, it includes information on the ideal points of actors not directly at the negotiating table, such as non-Eurozone EU members or other EU institutions involved in Eurozone crisis management but without direct decision-making power in intergovernmental negotiations, such as the European Central Bank. The dataset thus provides a rich resource to explore decision-making in a complex institutional structure such as the EU.

#### *Agenda control and issue linkage*

A final issue that shapes the dynamics and outcomes of negotiations is the role of agenda control. We can think of control of the agenda as determining what issues are available to negotiate, and in what order. This can affect importantly how governments act to achieve their goals and gives the agenda-setter considerable influence over the bargaining outcome (Tsebelis, 2002).

As discussed above, one form of agenda control is the ability to put certain issues off or onto the EU's agenda, a type of agenda control that some observers attribute to France and Germany (e.g. Degner and Leuffen, 2019; Schild, 2013). The more



institutionalized agenda-setter in the European context is the European Commission, which has the unilateral power to formally initiate legislation in the European legislative process. This is a powerful tool that often allows the Commission to move legislative outcomes closer to its ideal point (e.g. Hartlapp et al., 2014). Nonetheless, the extent to which this formal agenda-setting power translates into actual influence over legislative outcomes is contested (Kreppel and Oztas, 2017). With regard to EU decision-making during the Eurozone crisis, some argue that the Commission has been able to set the agenda on certain issues related to EMU reform, especially when decisions were taken in the context of the EU's highly institutionalized ordinary legislative procedure (Dinan, 2012). This is also in line with Lundgren et al.'s (2019) findings that bargaining outcomes were significantly closer to those states whose preferences were aligned with the commission's ideal point, especially when decisions were taken via ordinary legislative procedure. Others argue that the move away from the community method towards more intergovernmental bargaining has weakened the Commission (Chang, 2013). Finke and Bailer's (2019) contribution to this special issue reconciles these two views and shows that the Commission retained a powerful agenda-setting role when decisions are taken in the EU's formalized legislative setting, but that the Commission became almost irrelevant in intergovernmental negotiations that resulted in international treaties.

Agenda control can also be understood more widely, including the question of which proposal is put to a vote or the order in which decisions are made. For example,

we can imagine that governments might vote differently on proposed national contributions to a common budget if they had previously decided how to spend the money (and vice versa). Such agenda-setting powers are particularly useful in a multifaceted arrangement such as the EU and its monetary union, because there are likely to be linkages across issue areas that could allow governments to use their influence in one realm to affect bargaining in another. Negotiators can tie together two issues that are not inherently connected – immigration and funds for regional development, for example. While this can make bargaining more complicated, as governments take into account the effects of the outcome on two dimensions, it can also allow for trades across issue area. A member state that cares more about immigration, for example, can make concessions on regional funds to get more of what it wants on immigration, and vice versa.

Linkage politics is a well-established component of both domestic and international politics, and it is important in the EU as well. More generally, they take place in a richly institutionalized environment, both domestically and regionally. National political institutions of nation states, and the institutions of the EU, play a major role in affecting the outcome of bargaining among the member states. While the contributions in this special issue focus only on issues related to the problems bedeviling EMU, a promising avenue for future research is hence to explore how the negotiations about EMU reform were embedded and linked with other EU issues.

Both existing theory and the empirical evidence presented in this special issue demonstrate the calculations necessary to understand bargaining among the nation states of the EU. These calculations include determining the bargaining power of the principal actors, which is in turn a function of the reversion point and patience of the national governments. Into this must be factored the array of preferences, the institutional decision rules, agenda control, and the possibility of issue linkage. The process is complex and its analysis equally complex, but as the articles in this special issue indicate, the rewards include a much clearer sense of the sources of EU collective decisions.

### **Intergovernmental and intra-European bargaining**

The European Union occupies a fascinating middle ground between the institution-poor bargaining environment within which most inter-state relations take place, on the one hand, and the highly institutionalized environment within which domestic political bargaining occurs. This middle ground raises theoretically and analytically important questions about how best to understand negotiations among the member states of the EU.

Models of bargaining between nation states typically assume that there is no overarching institution that can enforce agreements that are made – for the simple reason that there are few or no such institutions in reality. Even if there are interests in common between two countries, each government has to be concerned about the willingness and

ability of its interlocutor to carry out the agreement reached. The credibility of the commitments made is crucial to inter-state bargaining, which means that information about the true intentions and resources of each side are central. Bargaining models in international politics – such as the canonical bargaining model of war (Fearon, 1995; Reiter, 2003) – place informational problems at the center of their analysis. For governments to arrive at stable agreements they need some assurance that the agreements will be carried out; for this, they need accurate information about each other's intentions and abilities. Scholars in this arena, therefore, often regard international institutions as essential to help mitigate the informational problems that bedevil international bargaining (Keohane, 1984).

Domestic political bargaining is very different, for in stable democratic societies it takes place in a highly institutionalized setting. While agreements can always be reneged upon, models of domestic political negotiations typically assume that all parties know the goals and strength of their interlocutors with quite a bit of precision. In this context, the more relevant consideration is whether there are potential gains from trade across issue areas – linkage politics – that can be exploited for mutual benefit.

The European Union has features of both inter-state and domestic political bargaining. On the one hand, it is made up of sovereign nation states, whose representatives make the most important decisions about EU policy. On the other hand, it is highly institutionalized – not as highly as most developed democracies, but not that

far behind – and its core members have worked closely together for decades. Not surprisingly, a fruitful research program has employed legislative bargaining models developed for the national bargaining context to analyze EU politics (see Finke and Bailer, 2019; Thomson et al., 2006).

This implies that the nature of bargaining in the EU shares some characteristics of inter-state bargaining and other characteristics of domestic bargaining. It is interesting to speculate about circumstances that heighten one or the other feature of EU bargaining. Certainly, in the Eurozone crisis, it appears that inter-state negotiations dominated the proceedings, and that questions about the credibility of the commitments made by debtor and creditor states alike were central to the disagreements. However, other European policy areas look much more like the stuff of domestic politics. A promising area for future research is to examine the extent to which political negotiations within the EU most resemble inter-state bargaining or domestic politics – or, perhaps more usefully, under what circumstances the tools of analysis of these two domains are appropriate for understanding the EU.

## **Conclusion**

The member states of Europe's EMU face some serious problems. The euro has been in trouble for over a decade and attempts to reform it continue to face major obstacles. For scholars, observers, and practitioners, it is important to understand the

dynamics of negotiations within EMU. A clear analysis of how these negotiations have taken place in the past is essential to formulating a clear understanding of where the political economy of EMU stands today, and where it might go in the future.

This volume makes a major step forward in establishing the appropriate theoretical and empirical tools for analyzing the politics of EMU and the EU more generally. The articles in this special issue provide a clear, theoretically informed, approach to estimating the preferences of national governments as they bargain over the structure and functioning of the monetary union. They present systematic analyses of how that bargaining has taken place, and why it has arrived at the observed outcomes. These articles, and the theory and data upon which they are based, also provide a firm foundation for further research aimed at understanding how the member states of the EU and EMU will confront the continuing challenges the euro faces as it moves into its third decade.

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## Notes

<sup>i</sup> For a discussion of this issue in a global setting, see for example (Bailey et al., 2017; Signorino and Ritter, 1999).

<sup>ii</sup> It can be extremely difficult to differentiate between preferences and strategies. The issue has long been debated both in the general political-economy literature and in International Relations. See, for example, Frieden (1999).

<sup>iii</sup> The reversion point is also known as 'disagreement value'.

<sup>iv</sup> The Online appendix by Lundgren et al. (2019) provides a useful overview.

<sup>v</sup> This is a feature that is not unique to the EU but can also be found in other international organizations such as the IMF. This is a feature that is not unique to the EU, but can also be found in other international organizations. For example, the weighted voting rules in international financial institutions, such as the IMF or the Asian Development Bank, gives the institutions' largest shareholders a disproportionately large share of votes and moves lending decisions in their favor (Copelovitch, 2010a,b; Lim and Vreeland 2013).